

**SUPPORT PROGRAM FOR THE NATIONAL ENVIRONMENT FUND
(FUNDO NACIONAL DO MEIO AMBIENTE, FNMA) II**

(BR-0262)

EXECUTIVE SUMMARY

BORROWER : Federative Republic of Brazil

EXECUTING AGENCY: Ministerio do Meio ambiente, dos Recursos Hídricos e da Amazônia Legal (MMA)

		<u>Millions</u>		
		<u>Stage I</u>	<u>Stage II</u>	<u>Total</u>
AMOUNT AND SOURCE:	IDB:	US\$ 24.0	FSO US\$ 21.0	US\$ 45.0
			Local	
			Currency	
	Local:	US\$ 16.0	US\$ 14.0	US\$ 30.0
	Total:	US\$ 40.0	US\$ 35.0	US\$ 75.0

FINANCIAL Amortization period: 20 years

TERMS AND Disbursement period: 3 years (Stage I)

CONDITIONS: Interest rate: 3%

Inspection and supervision: 1%

Credit fee: 0.0%

BACKGROUND: The Program has been designed and analyzed in its entirety with an aggregate cost of US\$ 75.0 million, of which the Bank will finance US\$ 45.0 million. The Program will be executed in two stages. Each stage will be financed by a separate Bank loan (US\$ 24.0 million and US\$ 21.0 million respectively). Stage I will finance project investments, institutional strengthening and environmental licensing over a three year period (see below). Stage II will continue financing for projects and institutional strengthening over a two year period. The two-loan structure is well-suited for the operation, allowing the inclusion of specific performance criteria while maintaining flexibility in execution.

The approval of the second stage will be conditioned on agreed-upon levels of disbursements, commitments, and achievements of goals for the first stage. The specific requirements are presented in Chapter III.

OBJECTIVES: The goal of the Program is to contribute to improving environmental quality, recovery and conservation of natural resources in Brazil through implementing the national environmental policy. The purpose is to support locally developed environmental projects; strengthen the capacity of project executors to implement environmental projects, as well as the capacity of the Fund to mobilize investment resources; and strengthen the environmental licensing system as a preventive instrument of environmental control.

DESCRIPTION: The proposed program has three related components:
(i) investments in specific projects; (ii)

institutional strengthening for the project proponents/beneficiaries and the FNMA; and (iii) support for strengthening the environmental licensing system.

1. Project investments (US\$ 22 million Stage I, US\$ 28.7 million Stage II)

The Program will finance projects to address key environmental problems and strategies. Types of projects will include: (i) conservation units; (ii) applied natural resource and environmental research and technology development; (iii) environmental education and outreach activities; (iv) sustainable natural resource management and conservation; (v) environmental control; and (vi) institutional strengthening of project proponents. Grants will be available through the following two windows.

Demand-driven Projects (US\$ 12.0 million Stage I, US\$ 13.7 million Stage II): Project proposals are presented to the FNMA on a first come, first served basis, subject to meeting eligibility and selection criteria. Project proponents must provide a minimum of 10% counterpart contribution to each project. Local community groups, NGOs and municipalities are the primary clients for this window.

Induced demand (US\$ 10.0 million Stage I, US\$ 15.0 million Stage II): The second window will be targeted to environmental issues of regional or national priority. Priorities for the second window will be targeted through Requests for Proposals (RFP) in priority areas, based on the National Environmental Policy. Projects will be ranked and funded according to rank until all resources for the RFP are allocated. Priority areas include local action for fire prevention in the Amazon, private conservation areas in the Mata Atlântica, and sustainable practices in the Caatinga and Cerrados regions.

2. Institutional strengthening ((US\$ 5.7 million Stage I, US\$ 4.2 million Stage II)

The component is intended to increase the institutional capacity of project sponsors, strengthen the FNMA as an executing agency, and widen the financial resource base of the Fund itself.

General outreach and training for project proponents (US\$ 800,000 Stage I, US\$ 530,000 Stage II): Project proponents--grass roots community organizations, NGOs, municipalities--will have access to general training in administrative, financial and technical areas, in order to increase their capacity to execute environmental projects through information brochures and training workshops.

Strengthening the FNMA Coordinating Unit (US\$ 4.7 million Stage I, 3.5 million Stage II): the Fund will receive support for the following activities: (i) improved operating procedures; and technical training for FNMA staff; (ii) project monitoring to review the procedures put in place by the FNMA after the second year of the project; information systems; and (iv) establishing a Technical Advisory Group and Technical

Commissions for improved project review and selection for each of the proposed windows.

Financial sustainability of the fund (US\$ 240,000 Stage I, US\$ 140,000 Stage II): the component will include feasibility studies, development and implementation of a financial sustainability plan to widen the base of resources and support for the FNMA.

3. Environmental licensing (US\$ 7.9 million Stage I).

The Program will include a component to improve the effectiveness of environmental licensing at the federal and state levels.

Standardization of rules and procedures (\$ 1.6 million): The Program will finance a review of rules and procedures related to environmental licensing at the federal and state levels and the adoption of standards, guidelines and monitoring routines.

Information and monitoring system (\$ 1.2 million): The Program will finance the design of a national system of information and monitoring on licensed works and activities, pilot implementation in six regions of the country and a study on alternatives for financial sustainability and improvement of environmental licensing and monitoring activities.

Decentralization of federal licensing responsibilities (US\$ 5.1 million): The Program will permit the implementation of six (6) regional units of IBAMA in order to decentralize federal licensing. Each unit will be staffed with three (3) IBAMA officers and a coordinator. Training will be carried out through courses in principles of environmental licensing in Brazil, and through case studies.

**THE BANK'S
COUNTRY AND
SECTOR STRATEGY:**

The strategy of the Bank in Brazil emphasizes: (a) support for reform and modernization of the public sector at the Federal and State levels; (b) support for opening the economy through priority infrastructure investments and modernizing the private sector; and (c) reducing inequality and poverty through improving efficiency and an increased focus on social expenditures. The Bank's work in the environment and natural resources area has contributed to all three elements of the strategy. Through direct investments to improve the urban environment, the Bank has taken the opportunity to support and modernize state environmental agencies, principally in industrial pollution control. As environmental degradation disproportionately affects the poor in both urban and rural settings, the Bank projects that improve environmental quality help reduce the unequal burden of pollution and resource depletion.

The proposed program is consistent with the strategy. Direct investments in the environment will be made at the local level. Project sponsors will be strengthened to conceive, design and implement environmental investments. Environmental licensing and control will be decentralized, lowering costs and improving local participation. Increased public

participation will improve public and private sector accountability for preventing environmental degradation.

**ENVIRONMENTAL AND
SOCIAL REVIEW:**

Due to the positive and pro-active approach of the Program, and the limited scale of each project investment, no significant negative environmental or social impacts are expected. As part of the project proposal, the proponent must identify probable negative environmental and social impacts, and include proposed mitigations.

BENEFITS:

The direct benefits of the program will be improved environmental quality and awareness at the local level, due to the nature of the projects financed by the FNMA and improved application of the environmental licensing system. The direct beneficiaries will be the local citizenry. The grass roots organizations, community groups, NGOs, and small municipalities that comprise the majority of project proponents will also directly benefit from the strengthening and capacity-building activities of the Program. The private and public project proponents will benefit from improved, transparent application of existing law.

RISKS:

The primary risk for the Program as in many programs of this type, is the possible staff turnover in the future, which could weaken the leadership and effectiveness of the Coordinating Unit. The risk is mitigated by the inclusion of resources for technical staff training and the development of clear operational guidelines to minimize the impact of staff turnover, and the public outreach and fund-raising activities to maintain the profile of the Fund to its potential clients and donors.

A second risk to the Program is that the Fund will not be able to mobilize an additional 20 percent of investment resources necessary to trigger the presentation of the Stage II loan to the Board. The Program mitigates this risk by including resources specifically for evaluating alternatives and implementing a fund-raising program. The Environmental Crimes Law specifically directs some portion of the fines collected to the FNMA. In addition to the recently passed Environmental Crimes Law, there are a number of proposals in Congress that address improving environmental quality, as well as strengthening the Fund itself.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

1. Conditions complied with

- approval and implementation of Operating Regulations (? 3.11); and
- approval of draft agreement of resource transfer between MMA and IBAMA (? 3.11)

2. Conditions prior to the first disbursement

The following conditions will be incorporated into the contract for Stage I:

a) Conditions prior to first disbursement:

- establishment of Program Management Unit

(? 3.13);

- b) Conditions prior to first disbursement of component 3, environmental licensing:
 - establishment of two IBAMA regional licensing centers and selection of personnel (? 3.14).
- c) Conditions during execution:
 - broaden representativeness of the Deliberative Committee (? 3.15);
 - signature of agreement between MMA and IBAMA (? 3.16); and
 - establishment of four IBAMA regional licensing centers and selection of personnel (? 3.17)

In addition to the special contractual conditions, the contract will include standard clauses regarding auditing, progress report monitoring and evaluation. The Program will include a mid-term evaluation of Stage I (? 3.22).

For recognition of retroactive program costs, up to US\$ 3.0 million be approved for financing by loan resources and that up to US\$ 1.1 million be approved for financing by counterpart resources subject to compliance with Bank procedures.

**CONDITIONS PRIOR
TO BOARD
PRESENTATION OF
THE STAGE II LOAN:**

The Presentation of the Stage II loan to the Board will be conditioned on the following (? 3.18):

- (a) fifty (50) percent of the Program resources has been disbursed;
- (b) an additional twenty-five (25) percent of Program resources have been committed;
- (c) The FNMA has raised an additional amount equal to twenty (20) percent of Program resources for Component I from sustainable sources other than ordinary budget allocations; and
- (d) the FNMA has included actions, as necessary, to improve targeting of benefits and beneficiaries in Stage II as identified in the midterm evaluation.

**POVERTY-TARGETING
AND SOCIAL SECTOR
CLASSIFICATION:**

The Program is not categorized as poverty targeted either geographically or towards low income groups per the guidelines set forth in AB-1704.

**EXCEPTIONS TO BANK
POLICY:**

None

PROCUREMENT:

The acquisition of goods and equipment and the contracting of consulting services financed by the resources of the Program shall be made in accordance with the procedures of the Bank and to the extent that the Bank financing is in local currency, will be subject to local legislation and procedures. Public bidding will be used for consulting services greater than US\$ 200,000, and for goods for amounts greater than US\$ 350,000, and for public works greater than US\$ 5,000,000. Because the small size of projects

and limited need for civil works, public bidding for works is not expected. Given the improved performance of the Fund over the last three years and the strengthening actions included in the proposed Program, ex-post review of local procurement is recommended.